

SYRIA

The Department of State submitted this report to the Senate Committees on Foreign Relations and on Finance and to the House Committees on Foreign Affairs and on Ways and Means, on January 31, 1999.

Key Economic Indicators
(Millions of U.S. Dollars unless otherwise indicated)

	1996	1997	1998
<i>Income, Production and Employment: 1/</i>			
Real GDP (at factor cost) 2/	121,507	116,072	118,625
Real GDP growth at factor cost (pct change)	3.7	-4.4	2.2
Nominal GDP 3/	17.20	17.60	15.00
By Sector:			
Agriculture	4.88	4.57	N/A
Mining & Manufacturing	3.47	4.07	N/A
Building & Construction	698	724	N/A
Wholesale & Retail Trade	3.79	3.51	N/A
Transportation & Communication	1.85	2.19	N/A
Finance & Insurance	736	747	N/A
Services	332	379	N/A
Government Services	1.45	1.45	N/A
Per Capita GDP at Factor Cost (US\$)	952	837	800
Labor Force (000s)	4,400	4,600	4,800
Unemployment Rate (estimated)	12	12	15
<i>Money and Prices (annual percentage growth):</i>			
Money and Quasi-Money	9.3	11.1	12.1
Consumer Price Inflation	8.9	2.0	4.0
Exchange Rate (US\$/SP)			
Average Exchange Rate	39.30	41.30	45.00
Official	11.20	11.20	11.20
"Neighboring Country Rate"	43.50	45.00	46.00
Offshore Market	50.00	51.00	52.00
<i>Balance of Payments and Trade: 4/</i>			
Total Exports FOB	4.00	3.90	3.80
Exports to U.S.	0.02	0.03	0.03

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Total Imports CIF	5.40	3.90	3.90
Imports from U.S.	0.23	0.18	0.17
Trade Balance	-1.40	-0.14	-0.10
Balance with U.S.	-0.21	-0.15	-0.14
External Debt	N/A	5.0	N/A
Debt Service Ratio	16.7	25.1	N/A
Gross Official Reserves	1.70	1.50	1.40
Aid from U.S.	0	0	0
Foreign Grants (Billions of Syrian Pounds)	0.3	N/A	N/A

1/ Although the Syrian Government released 1997 statistics in December 1998, these figures are not final. 1998 figures will not be available until December 1999 and estimates are based on embassy and IMF projections.

2/ Millions of Syrian Pounds in 1985 prices.

3/ US\$ billions at average exchange rate.

4/ US\$ billions.

1. General Policy Framework

In 1998, the Syrian Government continued to reduce administrative barriers to imports. The private sector, responding to these and other reforms, has increased its imports beyond those of the public sector; however, due to price competitiveness and continued U.S. economic sanctions, U.S. exports to Syria have lagged behind those of other countries.

Prospects for Syrian private sector investment and imports continue to improve slowly, spurred by economic reforms. Liberalization actions over recent years permit private exporters to retain foreign exchange export earnings to finance permitted imports. Likewise, the government has continued broadening both its list of permitted private sector imports and investments by private sector companies in areas such as shipping, power generation, and cement.

The United States first imposed trade controls on Syria in 1979 as a response to Syrian Government involvement with terrorism. The U.S. Government expanded sanctions against Syria in 1986, following Syria's implication in the attempted bombing of an Israeli airliner at London's Heathrow Airport. Among the items whose export requires a license are aircraft, aircraft parts, and computers of U.S.-origin (or containing 25 percent U.S.-origin components and technology). As a result of these restrictions, Syrians have sought alternate suppliers of dual-use technology products. Furthermore, under the 1986 sanctions, Syria is ineligible for the U.S. Government credits including USAID programs, the Export Enhancement Program (EEP), and the Commodity Credit Corporation (CCC) Program for Agricultural Products. The Syrian-U.S. Bilateral Aviation Agreement expired in 1987 and has not been renewed. Finally, EXIM Bank and OPIC suspended their programs in Syria, which puts U.S. exporters at some disadvantage vis-à-vis foreign competition, especially as some European countries have resumed (mainly short term) export credit programs.

The government uses its annual budget as its principal tool for managing the economy. Through 1992, the government's ability to raise official prices on many consumer items (effectively reducing subsidies), improve tax collections, and increase transfers from state enterprises, while reducing the commitment of Syrian resources to capital expenditures, enabled it to reduce budget deficits, leading to a balanced budget in 1992. However, the last five budgets have been in deficit (\$310.8 million in 1994, \$294.4 million in 1995, \$201 million in 1996, \$183.6 million in 1997, and \$230.1 million in 1998), due to Syria's maintenance of large military and public sector establishments, and its heavy (but slowly diminishing) subsidization of basic commodities and social services. Declining oil income in 1998 will exacerbate this problem.

Given Syria's anachronistic and nationalized financial system and inability to access international capital markets, monetary policy remains a passive tool used almost exclusively to

cover fiscal deficits. All five of the country's banks are nationalized. The central bank has no policy role and interest rates are fixed by law. Most rates have not changed in the last several years. Real interest rates only in 1997 reached a positive level, as high inflation had previously undercut returns.

The drop in world oil prices has had serious budget implications for the government. It is estimated that Syria's FY 1998 budget shortfall totaled \$600 million as a result of oil's recent decline on world markets. Oil revenues had previously allowed Syria to remain within its command economy mode. In the face of depressed worldwide oil prices and declining production, Syrian authorities are scrambling to invest in exploring new reserves and taking steps to diversify the economy.

2. Exchange Rate Policies

The government continues to maintain a multiple exchange rate system. The official exchange rate remains fixed at 11.20 Syrian Pounds/US\$ for valuations of some customs tariff rates and some bilateral debt payments. A second rate, the "Neighboring Country" rate, currently pegged at 46 SP/US\$, applies to most state enterprise imports/exports except certain basic commodities and military/security items. This rate was devalued twice in 1997 to bring it more in line with the widely used offshore rate available in Lebanon, Jordan, and the Arab Gulf countries. During 1998, the offshore value of the pound fluctuated between 51 SP and 52.5 SP to the dollar. The government plans to devalue the Neighboring Country rate to 46.45 SP by the beginning of 1999, in a further step to unify the exchange rates.

Exchange controls are strict. Syrian currency may not be exported, although it may be imported. Outward private capital transfers are prohibited, unless approved by the Prime Minister or transacted under the Investment Law 10 (see below). Prior to 1987, Syrian law required private exporters to surrender 100 percent of foreign exchange earnings to the central bank at the official rate. Now, private exporters may retain 75 to 100 percent of their export earnings in foreign exchange to finance imports of inputs and other items designated on a short list of basic commodities, surrendering the balance to the Commercial Bank of Syria at the less favorable "Neighboring Country" rate. Since 1991, the Commercial Bank of Syria will convert cash, travelers checks, and personal remittances for non-Syrians at the "Neighboring Country" rate. In 1996, Syrian citizens were permitted to open bank accounts in foreign currencies at the Commercial Bank of Syria.

3. Structural Policies

By law, the Ministry of Supply and Internal Trade controls prices on virtually all products imported or locally produced, although enforcement in most sectors is spotty. The ministry also

sets profit margin ceilings, generally up to 20 percent, on private sector imports. Local prices are computed at the 46 SP/US\$ rate. In the agricultural sector, production of strategic crops (cotton, wheat) is controlled through a system of procurement prices and subsidies for many inputs, including seeds, fuel, and electricity. Farmers may retain a portion of production, but the balance must be sold to the government at official procurement prices. Between 1989 and 1996, the government continued to increase farm gate prices to encourage production and to enable state marketing boards to purchase larger quantities of locally-produced commodities. For the past two years, the Syrian Government's price of wheat has been significantly above the world price .

Most public sector contracts are awarded through the official tender system. These are open to international competition with no restrictions, other than language pertaining to the Arab League boycott of Israel and the requirement to post a bid bond. Syrian public sector entities will accept positive statements of origin to deal with the boycott issue.

Syrian tariffs are very high for finished and luxury products, exceeding 250 percent for passenger cars. Income taxes are highly progressive. Marginal rates in upper brackets are 64 percent. Salaried employees also pay a graduated wage tax, reaching 17 percent. Tax evasion is widespread.

Syria has agreed with other Arab countries within the Arab League to reduce customs duties by 10 percent every year as of January 1, 1999. In addition, Syria and Lebanon agreed to reduce customs duties by 25 percent every year as of the same date. Currently, Syria is negotiating an associationship agreement with the European Union. As part of this, in 1998, Syria signed a Framework Agreement with the EU which allowed extension of new credits under the EU's Mediterranean Development Initiative. It also launched a 2-3 year negotiating process that may result in a Free Trade Agreement with a 12-year phase period. EU access for Syrian agricultural products may prove a large hurdle.

4. Debt Management Policies

Syria's external debt amounted to \$5 billion at the end of 1997 (equivalent to 30 percent of GDP in 1997, and including debt to Russia not denominated in rubles). About one-half is owed to bilateral creditors, notably Germany and Japan, with the remainder divided equally between 1) regional and international institutions; and 2) banks and suppliers. In addition, ruble-denominated debt owed to the Russian Federation -- which is mostly in arrears -- amounts to 2.5 billion rubles, which reflects the 65 percent discount provided under the Paris Club agreement with the Russian Federation. Negotiations on the size and settlement of the debt, and Syrian counterclaims, are continuing.

Syria has been pursuing a strategy to reduce its external arrears (which, as of May 1998, total \$1.4 billion). Following an agreement with France in 1996, an agreement was concluded

with the World Bank in July 1997 under which Syria repaid \$272 million in principal arrears, while rescheduling the remaining \$260 million in interest arrears over a five-year period. A resumption of World Bank technical assistance followed, although Syria still cannot borrow from the IBRD until the arrears are settled. (However, the IFC is about to resume operations in Syria.) An agreement with the U.K. was also concluded in 1997, involving a cash payment. Negotiations with Germany are hampered by difficulties over the valuation of claims of the former German Democratic Republic on Syria.

5. Significant Barriers to U.S. Exports

Any product legally imported into Syria requires an import license, which is issued by the Ministry of Economy and Foreign Trade according to a policy aimed at conserving foreign exchange and promoting local production. Strict standards on labeling and product specifications are non-discriminatory and fairly enforced. Customs procedures are cumbersome and tedious because of complex regulations. In addition, duty rates are extremely high. Tariff exchange rates depend on the type of good.

Government procurement procedures pose special problems. Although foreign exchange constraints have eased, some public sector companies continue to favor barter arrangements which can be unattractive to U.S. suppliers. This trend, which had eased somewhat in recent years, appears to have resurfaced in 1998 as government revenues dropped with the decline in oil income.

In government tenders, a temporary bank guarantee must be submitted and then substituted with a performance bond for any successful bidder. Current bid bond forms stipulate that the guarantee becomes null and void if the tender is not awarded upon its expiration date. Some government tenders include a clause allowing the bidder to cancel his/her bid at six-month intervals, provided a written notice is received within a stipulated time frame. If such a clause is not included in the tender, it can often be negotiated. In addition, problems remain in the prompt return of performance bonds.

Syria participates in the Arab League boycott of Israel. Many Syrian Government tenders contain language unacceptable under U.S. anti-boycott law. Public sector agencies accept positive certification from U.S. companies in response to tender application questions. Once interested parties obtain tender documents, they would be well advised to obtain competent advice regarding the anti-boycott regulations before proceeding. The best source of advice is the U.S. Department of Commerce, Office of Anti-Boycott Compliance (telephone advice line: 202-482-2381.)

Syria does not maintain specific "buy national" laws. Some strategic goods, military equipment, and items not produced locally or in sufficient quantities, are still procured by public

sector importing agencies on the international market, provided foreign exchange is allocated by the Supreme Economic Council. The private sector also contributes significantly to Syrian imports.

All investment projects are carefully screened by the "Higher Council for Investment" before approval. Joint ventures with government agencies are encouraged. Petroleum exploration and oil service companies operating in Syria now are able to convert their local currency expenditures at the favorable "Neighboring Country" rate of 46 SP/US\$. Contracts for oil exploration concessions and service require arduous negotiations. The number and position of foreign employees in a company are usually negotiated when the contract or agreement is signed. Land ownership laws are complex. The Investment Law of 1991 provides for tax holidays and exemptions on duties, as well as guarantees for the repatriation of profits. However, the law prohibits repatriation of capital unless it is generated by hard currency sales. One of the major obstacles to foreign trade and investment is Law No. 24 which criminalizes unauthorized foreign exchange transactions, and thus contradicts the intent of Law No. 10. Additionally, Syria's poor infrastructure, the lack of financial services, complex foreign exchange regulations, untrained workforce continue to pose commercial barriers.

Government monopolies in banking, insurance, telecommunications, water bottling, and other public sector service industries preclude foreign investment in those sectors. Motion pictures are distributed by a government agency and subject to censorship.

6. Export Subsidies Policies

Local export financing and export subsidies are not available to either the public or the private sectors. Indeed, Syria is one of the few countries in the world that levies taxes on some private sector exports. However, recent government decisions allowing private firms to transact exports and imports at the "Neighboring Country" rate, instead of the overvalued official rate, have encouraged private trade through official channels. Similar concessions to public sector companies to complete export transactions have enhanced the foreign exchange position of these companies. The government is exporting wheat at prevailing international prices. Export prices are still below the cost to the government at the "Neighboring Country" rate of exchange.

7. Protection of U.S. Intellectual Property

Syria is not a contracting party to the World Trade Organization and does not meet international minimum standards for Intellectual Property protection set forth in the Trade Related Aspects of Intellectual Property Rights (TRIPs) Agreement. It is also not a member of the World Intellectual Property Organization (WIPO) or any of the treaties administered by WIPO.

Syria's legal system recognizes and facilitates the transfer of property rights, including intellectual property rights. There is, however, no copyright protection. Due to an unsophisticated industrial structure and existing limits on private industry, local industry has not yet been a cause of major concern for U.S. producers. Local courts would likely give plaintiffs fair hearings, but any financial awards would be in Syrian Pounds. Requests for payment in foreign exchange would probably be delayed indefinitely.

Most books printed in Syria are in Arabic and by Arab authors, so there is little threat to U.S. publishers. However, there is fairly widespread marketing of pirated Western records, cassettes, and videos, as well as designer clothing/accessories/perfumes. As the personal computer market has expanded, there has been a corresponding increase in the availability of pirated software, which is usually brought in from Lebanon and Gulf countries. There has been one instance in the past two years of a Syrian company successfully prosecuting a case against a competitor who was manufacturing clothing under a false label for a Western (non-U.S.) retailer. However, litigation is rare and fairly cumbersome (expensive and time consuming). Government interlocutors have been reluctant to engage the embassy on intellectual property rights.

8. Worker Rights

a. The Right of Association: The 1973 Constitution provides for the right of the "popular sectors" of society to form trade unions. Although the General Federation of Trade Unions (GFTU) is purportedly an independent popular organization, in practice the government uses it as a framework for controlling nearly all aspects of union activity. According to GFTU officials, the secretaries general of the eight professional unions, some of whom are not Ba'th Party members, are each elected by their respective union's membership.

The Syrian Government contends that there is in practice trade union pluralism. However, workers are not free to form labor unions independent of the government-prescribed structure. Legislation granting the right of any trade union to be governed by its own bylaws without those rules having to correspond to those of the GFTU remains pending.

Strikes are not prohibited (except in the agricultural sector), but in practice they are effectively discouraged. There were no reported strikes in 1997, nor have there been for the past several years. The GFTU is charged with providing opinions on legislation, devising rules for workers, and organizing labor. The elected president of the GFTU is a senior member of the ruling Ba'th Party and a member of the party's highest body, its regional command. With his deputy, he participates in all meetings of the cabinet's ministerial committees on economic affairs. While the unions are used primarily to transmit instructions and information to the labor force from the Syrian leadership, elected union leaders also act as a conduit through which workers' dissatisfaction is transmitted to the leadership. The GFTU is affiliated with the International Confederation of Arab Trade Unions.

Since the U.S. Trade Representative suspended Syria's Generalized System of Preferences (GSP) privileges in June 1992, the Syrian Government has not made sufficient legislative and practical changes regarding worker rights to prompt a reconsideration of the suspension.

b. The Right to Organize and Bargain Collectively: In the public sector, unions do not normally bargain collectively on wage issues, but union representatives participate with the representatives of the employers and the respective ministry to establish sectoral minimum wages according to legally prescribed cost-of-living levels. Workers serve on the board of directors of public enterprises, and union representation is always included on the boards. Unions also monitor and enforce compliance with the labor law.

In the private sector, unions are active in monitoring compliance with the laws and ensuring workers' health and safety. Under the law, unions may engage in negotiations for collective contracts with employers. The International Labor Organization's exports committee noted Syria's continuing resistance to changing a section of the Labor Code which allows the Minister of Labor and Social Affairs to refuse to approve a collective bargaining agreement and to annul any clause likely to harm the economic interests of the country. Unions have the right to litigate contracts with employers and the right to litigate in defense of their own interests or those of their members (individually or collectively) in cases involving labor relations. Union organizations may also claim a right to arbitration. In practice, due to the relatively small size of Syrian private sector enterprises, labor disputes are generally settled informally.

Workers are protected by law from antiunion discrimination, and there were no reports of discrimination against union members (see also section 6 "e").

There is no union representation in Syria's seven free trade zones, and firms in the zones are exempt from Syrian laws and regulations governing the hiring and firing of workers, though some provisions concerning occupational health and safety, work hours, and sick and annual leave do apply.

c. Prohibition of Forced or Compulsory Labor: There is no Syrian law banning forced or compulsory labor. Such practices may be imposed in punishment, usually in connection with prison sentences for criminal offenses, under the Economic Penal Code, the Penal Code, the Agricultural Labor Code, and the Press Act. There were no reports of forced or compulsory labor involving children or foreign or domestic workers.

d. Minimum Age for Employment of Children: The minimum age for workers in the public sector is fifteen, though it is higher in certain industries. The minimum age varies widely in the private sector depending on the job. The absolute minimum age is 12, with parental permission required for children under age 16 to work. Children are forbidden to work at night. The

Ministry of Social Affairs and Labor is responsible for enforcing minimum age requirements, but the number of labor investigators is not adequate. Enforcement tends to be less effective in rural areas and tends not to question minimum age violations within small family businesses where, for example, sons take up their fathers' crafts. With economic growth falling off in the past two years, there is growing evidence of children seeking employment including street peddling, which largely goes ignored by the authorities.

e. Acceptable Conditions of Work: As mandated in the constitution, the government legislatively establishes minimum and maximum wage limits in the public sector and sets limits on maximum allowable overtime for public sector employees. The minimum wage is not sufficient to allow a worker and his family to survive, so many workers take additional jobs, open businesses, or rely on extended families for support. According to the 1959 Labor Act, minimum wage levels in the private sector are set by the Minister of Social Affairs and Labor. His decision is based on recommendations from a committee including government officials, employer representatives, and employee representatives.

Syrian Labor Law extensively regulates conditions of work. This includes rules and regulations which severely limit the ability of an employer to fire an employee without due cause. One exception to the heavily regulated labor field relates to day laborers. They are not subject to minimum wage regulations and receive compensation only for job-related injuries. They are commonly employed in small private firms and businesses in order to avoid the costs of permanent employees who are well protected, even against firing.

The statutory workweek consists of six 6-hour days, although in certain fields in which workers are not continuously busy, a 9-hour day is permitted. Labor laws also mandate a full 24-hour rest day per week. Public laws mandate safety standards in all sectors, and managers are expected to implement them fully. The ILO has also noted that a provision of the Labor Code allowing workers to be kept at the workplace for up to 11 hours per day could lead to abuse. In practice, the public sector is in conformity with the schedule noted above. There are no reports of private sector employees having to work as many as 11 hours per day. A special department of the Social Security Establishment works at the provincial level with inspectors at the Ministries of Health and Labor to ensure compliance with safety standards. In practice, workers have occasionally taken employees to judicially-empowered labor committees to win improvements in working conditions that affect their health.

Foreign workers theoretically receive the same benefits as Syrians but are often reluctant to press claims because employees' work and residence permits may be withdrawn at any time. Moreover, many work illegally and are not covered by the government system. Some foreigners are employed illegally as domestic servants in Syria. Residence permits are legally granted only to diplomats who employ servants, but some senior government officials are also able to acquire the necessary permits.

f. Rights in Sectors with U.S. Investment: There is significant direct U.S. investment in oil/gas exploration and development in Syria (including a \$420 million gas project signed in November 1998). In addition, in 1997, one U.S. company (Mobil) established a lubricant manufacturing plant in Syria in a joint venture project with a group of Syrian investors. Mobil's share in this investment is 49 percent. U.S. firms are required to comply with Syrian labor law.

**Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad
on an Historical Cost Basis -- 1997**

(Millions of U.S. Dollars)

Category	Amount
Petroleum	(1)
Total Manufacturing	0
Food & Kindred Products	0
Chemicals & Allied Products	0
Primary & Fabricated Metals	0
Industrial Machinery and Equipment	0
Electric & Electronic Equipment	0
Transportation Equipment	0
Other Manufacturing	0
Wholesale Trade	0
Banking	0
Finance/Insurance/Real Estate	0
Services	0
Other Industries	6
TOTAL ALL INDUSTRIES	(1)

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.